

# WHAT TO EXPECT IN LENDER DUE DILIGENCE

Module 7 - Video 4

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## VIDEO Overview

What's covered:

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- Lender due diligence on the property
- Lender due diligence on the borrower
- Getting a jump on lender due diligence





## PROPERTY DUE DILIGENCE PROCESS



Three parts to lender due diligence on the property:

- 1. Financial
- 2. Legal
- 3. Physical

## FINANCIAL DUE DILIGENCE



- Lender will underwrite property and continually update underwriting through the closing period
- You must provide lender:
  - Property operating statements
  - ✓Property rent rolls
  - Proof of insurance meeting lender's requirements
- Operating statements and rent rolls must be updated each month through closing process
- Provide certified copies before closing



## LEGAL DUE DILIGENCE



The lender's legal due diligence consists of

- 1. Transfer of good title
- 2. Title insurance policy acceptable to lender
- 3. Recent survey showing no material defects
- 4. Acceptable zoning report
- 5. Inventory of personal property being transferred
- Legal opinion that loan is enforceable against borrower

# PHYSICAL DUE DILIGENCE



#### Physical due diligence consists of:

- 1. Property condition assessment (PCA)
- 2. Environmental report (Phase I and Phase II, if necessary)
- 3. Third-party appraisal
- 4. Lender site inspection
  - Deals have been lost at this stage
  - Have mortgage broker accompany lender to protect you
  - Have property broker work with seller to physically prepare property to show in best light on lender site inspection





#### MULTIFAMILY LAUNCHPAN

# **BORROWER DUE DILIGENCE**

- Credit/financial check on every KPs (sponsors, guarantors) and LP with 20% or more ownership
- Background checks on everyone in ownership structure
- You must provide:
  - 1. Organizational chart showing all persons and entities in ownership group entities back through parent companies to individual owners (unless public)
  - 2. Personal Financial Statement for every KP and every 20% LP owner
  - 3. Biography/resume for KPs and management company
  - 4. Corporate documents for every entity in org chart
    - Certificates of formation
    - Certificates of good standing from state of formation
    - Financial statements





#### MULTIFAMILY INGRAMINATION PROVIDED IN THE INFORMATION OF THE INFORMATI

### GET A JUMP ON BORROWER DUE DILIGENCE

Prepare following for lender due diligence to show yourself as pro and move quickly:

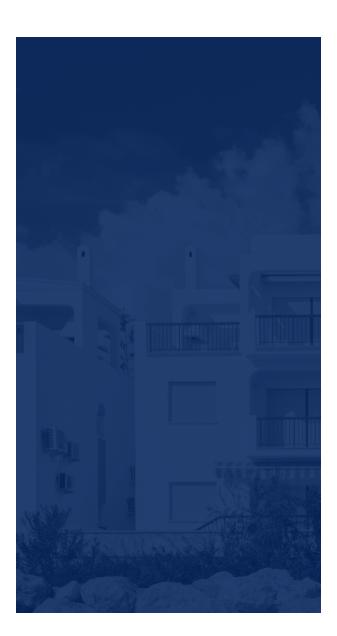
- 1. Team bios and resumes
- 2. Recent credit reports for all KPs
- 3. PFS for each KP and 20% owner LP
- 4. List of all properties owned (past/present) by sponsor team
- 5. Management company's resume, list of properties managed, and list of lenders who have approved the management company
- 6. Borrower organizational chart of ownership
- 7. Formation documents and good standing certificates for entities

#### GET A JUMP ON BORROWER DUE DILIGENCE



Prepare following for lender due diligence to show yourself as pro and move quickly:

- 8. Most recent T-12 and yearly operating statements
- 9. 3-6 months of rent rolls
- 10. Broker's offering memorandum, if any
- 11. Property pictures
- 12. Contact list (you, closing lawyer, mortgage broker, property broker, insurance broker, title company, seller attorney)
- 13. Your underwriting (for mortgage broker to get started underwriting)







Next up:

Module 7 - Video 5 Using a Mortgage Broker & Negotiating With the Lender

